

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

MT. CLEMENS HOUSING COMMISSION

Financial Statements

June 30, 2005

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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Mt. Clemens Housing Commission
50 Church Street
Mt. Clemens, MI 48043

Earl Rickman, Executive Director

As management of the Mt. Clemens Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Mt. Clemens Housing Commission's financial activities for the FYE 6/30/05. This discussion and analysis letter of the Mt. Clemens Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities in one place. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

Overview of the Financial Statements

This annual report contains this *Management & Discussion Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Commission's financial statements are presented as fund financial statements because the Commission only has proprietary funds.

Required Financial Statements

The Statement of Net Assets includes the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission creditors (liabilities).

It also provides the basis for evaluating the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established Uniform Financial Reporting Standards that require Housing Commissions to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) and is required to be included in the audit reporting package.

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Enterprise fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Mt. Clemens Housing Commission Programs:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 New Construction Program: Under this program, the Housing Commission issued bonds many years ago which financed the construction of a low-income elderly apartment building. The building is owned and managed by third parties. The Housing Commission has an Annual Contributions Contract with HUD to provide Housing Assistance Payments for the tenants that live in this project and acts as the contract administrator for the program to ensure conformance with HUD regulations (4350.3) and housing quality standards.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 6/30/05:

	<u>FYE</u> <u>6/30/05</u>	<u>FYE</u> <u>6/30/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Public Housing Operating Subsidy	597,341	516,306	81,035	15.70%
Capital Fund Program Grants	528,967	410,223	118,744	28.95%
Sec. 8 N/C Subsidy	<u>1,846,508</u>	<u>1,839,830</u>	<u>6,678</u>	<u>0.36%</u>
Total	2,972,816	2,766,359	206,457	7.46%

The subsidy for Section 8 remained relatively stable. Public Housing Subsidy increased due primarily to higher utility cost estimates. The substantial increase in the Capital Fund Program was due to the fact that work projects during FYE 6/30/05 progressed along at a much more rapid pace than the prior year, thus utilizing more of our Capital Fund Program funding in FYE 6/30/05 than in FYE 6/30/04.

The following represents changes in the Balance Sheet:

	<u>FYE</u> <u>6/30/05</u>	<u>FYE</u> <u>6/30/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Cash & Investments	1,148,004	1,153,547	(5,543)	-0.48%
Total Current Assets, net of inter-program (due from)	1,166,739	1,170,294	(3,555)	-0.30%
Fixed Assets, Net of Depreciation	6,073,829	6,118,891	(45,062)	-0.74%
Total Liabilities, net of inter-program (due to)	649,603	665,857	(16,254)	-2.44%
Total Equity/Net Assets	6,590,965	6,623,328	(32,363)	-0.49%

Cash and Investments stayed stable, decreasing by less than 1%.

Total Current Assets also stayed stable, decreasing by less than 1%.

Fixed Assets increased by \$449,310; this increase represents several capital projects funded through the Capital Fund Programs (see details below). Although Fixed Assets increased by \$449,310, this was more than offset by depreciation charges of \$494,372, resulting in the net decrease stated in the above table.

Total Liabilities increased slightly, primarily due to an increase in payroll and benefits payable at 6/30/05 over the amount stated at 6/30/04. Our payroll & benefit package is handled through the City. The City then invoices us for reimbursement. At 6/30/05, the City was behind in their billing, resulting in a payable at 6/30/05 for two months worth of expense, as compared to the figure at 6/30/04 which represented only one month of payroll & benefit expense.

Total Net Assets (Equity) stayed stable, decreasing by less than 1%.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE</u> <u>6/30/05</u>	<u>FYE</u> <u>6/30/04</u>	<u>Dollar</u> <u>Change</u>	<u>Per</u> <u>Cent</u> <u>Change</u>
Revenues:				
Tenant Revenue	641,449	669,397	(27,948)	-4.2%
Other Revenue	<u>71,536</u>	<u>56,696</u>	14,840	26.2%
Total PHA generated Revenue	712,985	726,093	(13,108)	-1.8%
Operating Subsidies	2,515,137	2,427,784	87,353	3.6%
Capital Grants	<u>457,679</u>	<u>338,575</u>	119,104	35.2%
Total Revenue	3,685,801	3,492,452	193,349	5.5%
Expenses:				
Administrative	407,672	371,994	35,678	9.6%
Tenant Services	414	2,749	(2,335)	-84.9%
Utilities	267,596	269,349	(1,753)	-0.7%
Maintenance	661,538	672,669	(11,131)	-1.7%
General	131,394	123,253	8,141	6.6%
Extraordinary Maintenance	6,958	0	6,958	
Housing Assistance Payments	1,746,508	1,738,445	8,063	0.5%
Depreciation	<u>494,372</u>	<u>496,287</u>	(1,915)	-0.4%
Total Expenses	3,716,452	3,674,746	41,706	1.1%
Net Increase (Decrease)	(30,651)	(182,294)		

Revenues:

Mt. Clemens Housing Commission's primary revenue sources are subsidies and grants received by HUD. Revenue received from HUD in FYE 6/30/05 for Public Housing and for Sec. 8 remained increased from fye 6/30/04 to 6/30/05. For FYE 6/30/05, revenue generated by the Commission accounted for \$712,985 (or 19% of total revenue), while HUD contributions accounted for \$2,972,816 (or 81% of total revenue). Investment Income increased due to rising interest rates.

Expenses:

Total Expenses for FYE 6/30/04 were \$3,674,746 while for FYE 6/30/05 the total was \$3,716,452. This represents just a 1.1% increase in our Operating Costs, an amount less than the inflation rate. The cost area that increased the most was in Administration. This increase can be traced to staff salaries. We were not fully staffed in this area during fye 6/30/04, but we were fully staffed all during fye 6/30/05.

Budget Analysis:

A Low Rent Public Housing Operating Budget for fye 6/30/05 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

Entity-Wide Operational Highlights:

The Mt. Clemens Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE</u> <u>6/30/05</u>	<u>FYE</u> <u>6/30/04</u>
Low Rent Public Housing	286	286
Sec. 8 New Construction	281	281

During FYE 6/30/05, Mt. Clemens Housing Commission maintained a lease-up rate of 97% in its Public Housing Program and a lease-up rate of 97% in its Section 8 program. These lease-up rates are within HUD guidelines.

During FYE 6/30/05, our Capital Fund Program work projects included:

- Senior High-Rise building: We completely replaced our parking lot; we installed electronic locks on the stairwell fire doors per code; replaced vertical blinds; installed new smoke alarms; and upgrades to the boiler system.
- Family Housing Sites: Phase II of the Roof replacement program, commencement of dwelling unit interior painting program.

Economic Factors and Next Year's Budget and Rates

The Housing Commission is primarily dependent upon HUD for the funding of operations as well as capital needs. Therefore, the Housing Commission is affected more by the Federal Budget than by local economic conditions. The funding of programs could be significantly affected by the Federal Budget.

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in its finances. Questions or comments concerning any of the information contained in this report or request for additional information should be directed to:

Earl Rickman, Executive Director
Mt. Clemens Housing Commission
50 Church Street
Mt. Clemens, MI 48043

John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
Tel / Fax (989) 642-2092

Board of Commissioners
Mt. Clemens Housing Commission
50 Church Street
Mt. Clemens, Michigan 48043

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Mt. Clemens Housing Commission as of and for the year ended June 30, 2005. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sample Housing Commission as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

December 21, 2005

MT. CLEMENS HOUSING COMMISSION
Statement of Net Assets
June 30, 2005

ASSETS

C-3047

CURRENT ASSETS

Cash	\$ 1,148,004
Accounts Receivable, net of allowance for doubtful accounts 16,821)	7,751
Accounts Receivable- HUD	4,714
Prepaid Expenses	<u>6,270</u>
 Total Current Assets	 \$ 1,166,739

NON CURRENT ASSETS

Land	\$ 725,000
Buildings	6,299,325
Furniture, Equipment- Dwellings	15,760
Furniture, Equipment- Administrative	152,152
Construction in Progress	6,729,590
Accumulated Depreciation	<u>(7,847,998)</u>
 Total Non Current Assets	 <u>6,073,829</u>

<u>TOTAL ASSETS</u>	\$ <u>7,240,568</u>
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MT. CLEMENS HOUSING COMMISSION
Statements of Net Assets
June 30, 2005

LIABILITIES

C-3047

CURRENT LIABILITIES

Accounts Payable	\$	28,907	
Accrued Liabilities		140,634	
Accounts Payable- HUD		74,722	
Accounts Payable- Other Governments		29,681	
Accrued Compensated Absences		7,189	
Tenants Security Deposit		64,599	
Deferred Revenue		4,044	
Current Portion- Long Term Debt		<u>34,273</u>	
<u>Total Current Liabilities</u>	\$		384,049

NONCURRENT LIABILITIES

Long Term Debt- Energy Loan	\$	235,124	
Current Portion, above		<u>34,273</u>	
	\$	200,851	
Compensated Absences-noncurrent		<u>64,703</u>	<u>265,554</u>
<u>Total Liabilities</u>	\$		<u>649,603</u>

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	5,838,705	
Unrestricted Net Assets		<u>752,260</u>	
<u>Total Net Assets</u>			<u>6,590,965</u>

The Accompanying Notes are an Integral part of the Financial Statements

MT. CLEMENS HOUSING COMMISSION
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended June 30, 2005

REVENUE

Tenant Rental Revenue	\$ 625,353	
Tenant Income-Other	16,096	
HUD Grants	2,972,816	
Interest Income	17,298	
Other Income	<u>54,238</u>	
<u>Total Revenue</u>		\$ 3,685,801

EXPENSES

Administrative	\$ 407,672	
Tenant Services	414	
Utility Expenses	267,596	
Ordinary Maintenance	661,538	
General Expenses	<u>116,606</u>	
<u>Total Expenses</u>		<u>1,453,826</u>

<u>Excess (Deficiency) of Revenues over Expenses</u>	\$ 2,231,975
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OTHER SOURCES & (USES)

Interest Expense	\$ (14,788)	
Extra Ordinary Maintenance	(6,958)	
Housing Assistance Payments	(1,746,508)	
Depreciation Expenses	<u>(494,372)</u>	
<u>Total Other Sources (Uses)</u>		<u>(2,262,626)</u>

<u>Change in Net Assets</u>	\$ <u>(30,651)</u>
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Total Net Assets- Beginning	6,623,328
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Prior Period Adjustment: HUD changes to prior year funding	<u>(1,712)</u>
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Adjusted Beginning Balance	\$ <u>6,621,616</u>
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Total Net Assets- Ending	\$ <u>6,590,965</u>
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The Accompanying Notes are an Integral part of the Financial Statements

MT. CLEMENS HOUSING COMMISSION
Statement of Cash Flows
For the Year Ended June 30, 2005

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 669,290
Payments to Suppliers	(2,860,959)
Payments to Employees	(396,387)
HUD Grants	2,766,359
Other Receipts (Payments)	<u>56,696</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>543,770</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(449,313)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 94,457
Balance- Beginning of Year	<u>1,053,547</u>
Balance- End of Year	\$ <u>1,148,004</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (30,651)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	494,372
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	2,984
Investments	100,000
Prepaid Expenses	(258)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(974)
Accrued Liabilities	(21,575)
Accounts Payable-HUD	(2,282)
Compensated Absences	9,684
Security Deposits	2,982
Deferred Revenue	(12,455)
Current Portion Long Term Debt	<u>1,943</u>
Net Cash Provided by Operating Activities	\$ <u>543,770</u>

The Accompanying Notes are an Integral part of the Financial Statements

MT. CLEMENS HOUSING COMMISSION
Notes to Financial Statements
June 30, 2005

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Mt. Clemens Housing Commission, Mt. Clemens, Michigan, (Commission) was created by ordinance of the city of Mt. Clemens. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 28-1,4	Low rent program	288 units
	Oversight of a Section 8 Program	282 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. The Financial Data Schedule lists all the programs of the Reporting Entity including component units should they exist, as defined above. Based on the above criteria, no component units exist.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1999, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, unless they conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	15 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 45,196
Money Market Accounts	1,102,633
Petty Cash	<u>175</u>
Financial Statement Total	<u>\$ 1,148,004</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Cash:					
Checking A/C's	\$ 45,196	\$	\$	\$ 45,196	\$ 45,196
Petty Cash	175			175	175
C/D					
Money Market	\$ <u>1,102,633</u>	\$ _____	\$ _____	\$ <u>1,102,633</u>	\$ <u>1,102,633</u>
Total Cash	\$ <u>1,148,004</u>	\$ _____	\$ _____	\$ <u>1,148,004</u>	\$ <u>1,148,004</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance \$ 6,270

Note 5: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 725,000	\$	\$	\$ 725,000
Buildings	6,299,325			6,299,325
Furniture & Equipment-Dwellings	15,760			15,760
Furniture & Equipment-Admin	152,152			152,152
Leasehold Improvements	<u>6,280,280</u>	<u>449,310</u>		<u>6,729,590</u>
	\$13,472,517	\$ 449,310	\$	\$13,472,517
Less Accumulated Depreciation	<u>7,353,626</u>	<u>494,372</u>		<u>7,847,998</u>
	\$ <u>6,118,891</u>	\$ <u>(45,062)</u>	\$ _____	\$ <u>6,073,829</u>

Notes to Financial Statements- continued

Note 6: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ 85,284
Accrued Utilities	<u>55,350</u>
Financial Statement Total	\$ <u>140,634</u>

Note 7: Retirement

The Commission participates in the City of Mount Clemens Employees Retirement System. The fund requires all full time employees to participate. The employee contributes a percentage of their wages and the Commission contributes a percentage on their behalf. The plan allows for several retirement options, including normal retirement, disability and death benefits. For further information concerning the plan or statistical information, see the audit report provided by the City of Mount Clemens Employees Retirement System.

Note 8: Long Term Debt

The Commission entered into an energy conservation program approved by HUD. The Commission borrowed funds for energy conservation improvements; HUD will freeze the funding for utilities at the 1999 levels, therefore, the additional utility subsidy over the expected cost savings will repay the debt. The following represents the principal and interest obligations over the next five years:

Note payable, 5.85% interest payable serially until 2012.

June 30, 2006	\$ 47,119
June 30, 2007	47,119
June 30, 2008	47,119
June 30, 2009	47,119
June 30, 2010	47,119
Thereafter	54,973

Due to the unique regulatory constraints of the debt it is impracticable to estimate the fair value of debt.

Notes to Financial Statements- continued

Note 7: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 20,722,800
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	25,000
Worker's Compensation and other riders: coverage's required by the State of Michigan	

Note 10: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 11: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

MT. CLEMENS HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3047 Operating Subsidies	\$ <u>597,341</u>
* <u>CFDA 14.182 Housing Assistance Programs</u>	
C-3190 Section 8 New Construction	\$ <u>1,846,508</u>
* <u>CFDA 14.872 Capital Fund Program</u>	
C-3047 Capital Projects Funds	\$ <u>528,967</u>
	\$ <u>2,972,816</u>

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 20,722,800
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	25,000
Worker's Compensation and other riders: coverage's required by the State of Michigan	

*Connotes Major Program Category

Mt. Clemens Housing Commission

30-Jun-05

MI028

Combining Balance Sheet		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	977,254	170,750	-	1,148,004
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits				-
100	Total cash	977,254	170,750	-	1,148,004
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	-	-	4,714	4,714
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous	-			-
126	Accounts receivable- tenants - dwelling rents	24,572			24,572
126.1	Allowance for doubtful accounts - dwelling rents	(16,821)			(16,821)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable				-
120	Total receivables, net of allowances for doubtful accounts	7,751	-	4,714	12,465
	Current investments				-
131	Investments - unrestricted	-			-
132	Investments - restricted				-
142	Prepaid expenses and other assets	6,270			6,270
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	83,214	-	-	83,214
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	1,074,489	170,750	4,714	1,249,953
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	725,000			725,000
162	Buildings	6,299,325			6,299,325
163	Furniture, equipment & machinery - dwelling	15,760	-	-	15,760
164	Furniture, equipment & machinery - administrative	131,078	-	21,074	152,152
165	Leasehold improvements	6,040,239		689,351	6,729,590
166	Accumulated depreciation	(7,812,873)	-	(35,125)	(7,847,998)
160	Total fixed assets, net of accumulated depreciation	5,398,529	-	675,300	6,073,829
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	5,398,529	-	675,300	6,073,829

190	TOTAL ASSETS	6,473,018	170,750	680,014	7,323,782

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	28,907	-		28,907
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	85,284	-		85,284
322	Accrued compensated absences	7,189			7,189
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		74,722		74,722
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	29,681	-	-	29,681
341	Tenant security deposits	64,599			64,599
342	Deferred revenues	4,044	-	-	4,044
343	Current portion of Long-Term debt - capital projects	34,273			34,273
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	-			-
346	Accrued liabilities - other	55,350	-		55,350
347	Inter-program - due to	-	78,500	4,714	83,214
310	TOTAL CURRENT LIABILITIES	309,327	153,222	4,714	467,263
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects	200,851			200,851
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	64,703			64,703
350	TOTAL NONCURRENT LIABILITIES	265,554	-	-	265,554
300	TOTAL LIABILITIES	574,881	153,222	4,714	732,817
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	5,163,405	-	675,300	5,838,705
	Reserved fund balance:				
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	734,732	17,528	-	752,260
513	TOTAL EQUITY	5,898,137	17,528	675,300	6,590,965
600	TOTAL LIABILITIES AND EQUITY	6,473,018	170,750	680,014	7,323,782

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Mt. Clemens Housing Commission

30-Jun-05

MI028

Combining Income Statement		Low Rent 14.850	Section 8 New Construction	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	REVENUE:	-	-		
703	Net tenant rental revenue	625,353			625,353
704	Tenant revenue - other	16,096			16,096
705	Total tenant revenue	641,449	-	-	641,449
706	HUD PHA grants	597,341	1,846,508	528,967	2,972,816
708	Other government grants				-
711	Investment income - unrestricted	14,537	2,761	-	17,298
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	54,238	-	-	54,238
716	Gain or loss on the sale of fixed assets	-			-
720	Investment income - restrictec				-
700	TOTAL REVENUE	1,307,565	1,849,269	528,967	3,685,801
	EXPENSES:				
	Administrative				
911	Administrative salaries	106,137	67,000	57,883	231,020
912	Auditing fees	5,350	-		5,350
913	Outside management fees				-
914	Compensated absences	9,685			9,685
915	Employee benefit contributions- administrative	66,325	31,500	-	97,825
916	Other operating- administrative	51,047	2,937	9,808	63,792
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	414			414
	Utilities				
931	Water	135,479			135,479
932	Electricity	58,886			58,886
933	Gas	73,231			73,231
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	185,953			185,953
942	Ordinary maintenance and operations - materials & other	63,015		-	63,015
943	Ordinary maintenance and operations - contract costs	292,787		3,597	296,384
945	Employee benefit contributions- ordinary maintenance	116,186			116,186
	Protective services				

951	Protective services - labor				-
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MT. CLEMENS HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2005

The prior audit of the Mt. Clemens Housing Commission for the period ended June 30, 2004, contained four audit findings. The corrective action taken by the Commission is as follows:

- 1) Tenant Accounting Discrepancies- The issues that created the finding have been corrected; however, other issues have occurred, see new finding.
- 2) No Credit Card Policy- Appropriate credit card policy adopted.
- 3) No Withholding on Travel Allowances- Commission is now following the City policy.
- 4) Security Deposit Errors- Files tested in the current year did not reveal security deposit errors.

MT. CLEMENS HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
June 30, 2005

Compliance

I have audited the compliance of Mt. Clemens Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Mt. Clemens Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Mt. Clemens Housing Commission's management. My responsibility is to express an opinion on Mt. Clemens Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mt. Clemens Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Mt. Clemens Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Tenant Accounting Discrepancies 05-1		Eligibility

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

The management of Mt. Clemens Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Mt. Clemens Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

December 21, 2005

MT. CLEMENS HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2005

I have audited the financial statements of Mt. Clemens Housing Commission, Mt. Clemens, Michigan, as of and for the year ended June 30, 2005, and have issued my report thereon dated December 21, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mt. Clemens Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mt. Clemens Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

December 21, 2005

MT. CLEMENS HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2005

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Housing Assistance Program	X	
Capital Projects Funds	X	
Drug Elimination Grant	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X No
Reportable condition(s) noted	_____ Yes	_____ X No
Non Compliance material to financial statements noted	_____ Yes	_____ X No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X No
Reportable condition(s) noted	_____ X Yes	_____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Public and Indian Housing	Yes	None	5-1
Housing Assistance Program	Yes	None	N/A
Capital Fund Projects	Yes	None	N/A

MT. CLEMENS HOUSING COMMISSION
Findings & Questioned Cost
June 30, 2005

The following findings, of the Mt. Clemens Housing Commission, for the year ended June 30, 2005, were discussed with the Executive Director, Mr. Earl Rickman, in an exit interview conducted on December 21, 2005:

Finding 05-1

Tenant Accounting Discrepancies- low rent program.

A review of 10 tenant files revealed the following discrepancies:

- The Commission is using a month to month lease; HUD requires an annual lease.
- 3 of the ten were lacking HUD form 9987; authorization to release/obtain information.

Recommendation

The tenant files showed much improvement over the prior audit, however, the lease is still month to month; also, the authorization to release information is an annual election.

I recommend the Commission change the lease to meet the HUD requirements and obtain the annual release forms.

Reply

The Mt. Clemens Housing Commission (Commission) shall change the language in its leasing agreement to reflect the lease as a year to year lease from its current month to month language. We shall notify all residents regarding this change.

The Commission staff shall require an annual authorization of release of information form from all tenants of the Commission.